

MONTHLY REVENUE REPORT

December 2007

The revenue generated from Michigan's General Fund and School Aid Fund earmarked taxes totaled \$1.74 billion in December 2007, topping last year's level by 13.4%. This rather large increase reflects the recent increase in the income tax rate and some timing issues that helped boost the collections attributable to December activity. Adjusting for these noneconomic factors reveals that tax collections were up an estimated 3.6% in December. While income, sales, use, single business, and severance tax collections were up in December, these increases were offset in part by decreases in the tobacco, insurance, State education, real estate transfer, and casino taxes.

So far in FY 2007-08 (November and December cash collections), tax revenue is up 10.0%, but most of this increase is due to the increase in the income tax rate and the positive impacts of noneconomic timing factors. General Fund/General Purpose tax revenue is up 13.9% so far in FY 2007-08, but after adjusting for the income tax rate increase, it is up about 4.7%. School Aid Fund tax revenue, which does not include any revenue generated from the income tax rate increase, is up 6.1%. These increases overstate the true level of growth due to the noneconomic timing issues that contributed to tax collections in December. Both of these fiscal year-to-date growth rates are expected to diminish beginning in January.

Income tax revenue in December totaled \$730.5 million, which was up 19.5% from the year-ago level. This large increase reflects the additional revenue collected due to the increase in the tax rate from 3.9% to 4.35%, which went into effect October 1, 2007. In addition, December receipts included an extra key payday this year, which also helped boost withholding receipts. Gross income tax receipts were up 17.5%, due primarily to a 19.4% increase in withholding payments. Income tax refund payments fell from \$24.6 million in December 2006 to \$16.2 million in December 2007. The increase in gross collections and the reduction in refunds both added to the increase in net income tax collections in December. On a fiscal year-to-date basis, income tax revenue is up 16.8%.

Sales tax receipts totaled \$622.0 million in December, representing a fairly strong 15.7% increase. Most of this increase was due to the fact that collections in December 2006 were artificially low because December 2006 ended on a weekend, which caused some sales tax revenue that otherwise would have been counted in December to be included in January 2007 collections. December 2007 did not end on a weekend, so December sales tax collections were up compared with the year-ago level; however, some of this increase will be offset by weaker collections in January compared with last year. Motor vehicle sales tax collections were down 8.3% in December.

Single business tax revenue in December totaled \$82.1 million, which was up 5.0%; however, this overstates the underlying level of single business tax collections. Receipts from the single business tax are frequently very volatile on a monthly basis. Using a three-month moving average to help smooth out the monthly fluctuations, reveals that for the three months ending in December, single business tax collections were down 2.4%. So far in FY 2007-08, single business tax revenue is up 0.9%.

Real estate transfer tax revenue fell 3.9% in December to \$17.4 million. The current weakness in the housing market is reducing real estate transfer tax collections for two major reasons: 1) the number of properties changing ownership has declined dramatically, and 2) the prices of those properties being sold are down from what they otherwise would be. Real estate transfer tax revenue was down 20.2% in FY 2006-07 and so far in FY 2007-08 it is down another 3.4%.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for December 2007. Also presented are the revised consensus revenue estimates for FY 2007-08, which were adopted at the January 11, 2008, Consensus Revenue Estimating Conference.



Jay Wortley, Senior Economist

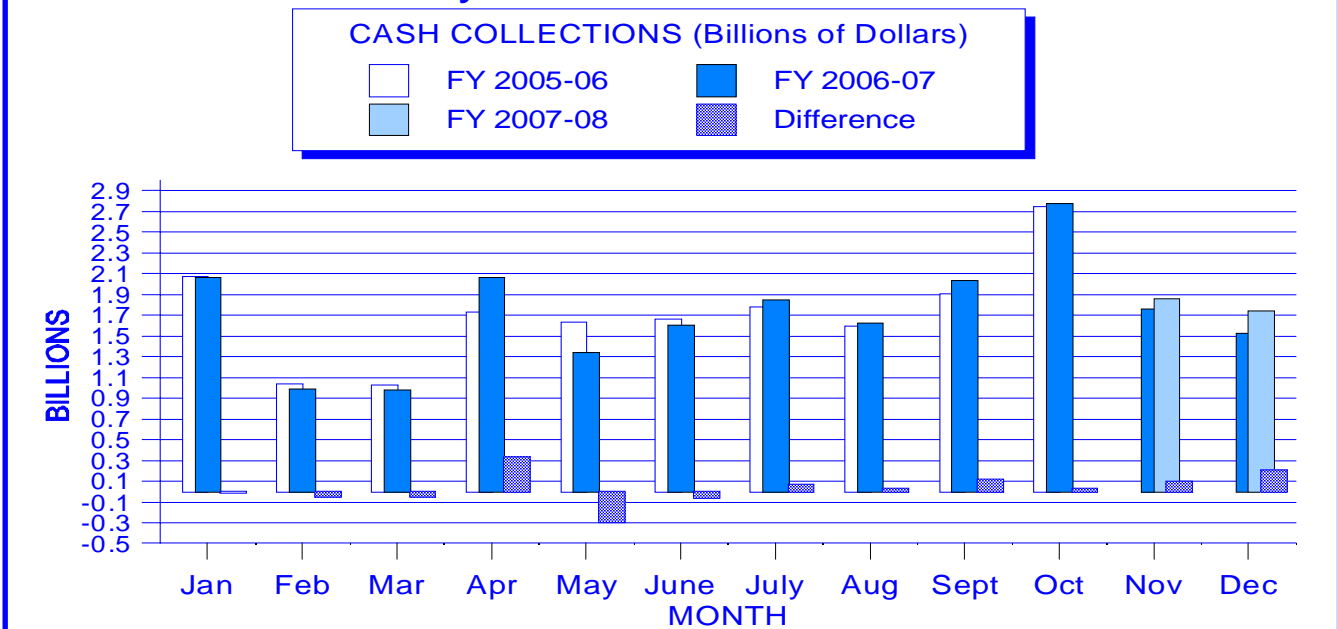
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<p style="text-align: center;">MICHIGAN REVENUE UPDATE DECEMBER 2007 (dollars in millions)</p>
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Type of Revenue	December Collections		FY 2007-08 to Date ²⁾		FY 2007-08 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 2006-07
Gross Income Tax	\$746.7	17.5%	\$1,331.5	14.8%	\$8,910.5	9.6%
Refunds	<u>(16.2)</u>	<u>(34.1)</u>	<u>(35.1)</u>	<u>(28.4)</u>	<u>(1,828.6)</u>	<u>8.4</u>
Net Income Tax	730.5	19.5	1,296.4	16.8	\$7,081.9	9.9
Sales Tax	622.0	15.7	1,166.0	10.3	6,529.8	(0.3)
Motor Vehicles	44.4	(8.3)	97.5	(3.1)	---	---
All Other Sales Tax	577.6	18.1	1,068.5	11.8	---	---
Use Tax	103.6	7.1	212.0	0.3	1,386.0	0.4
Tobacco Taxes	90.2	(6.2)	180.5	(6.8)	1,106.0	(2.1)
Single Business Tax	82.1	5.0	184.3	1.0	638.0	(64.9)
Michigan Business Tax	0.0	0.0	0.0	0.0	1,884.3	---
Insurance Tax	2.3	(37.8)	24.5	2.9	244.0	9.0
State Education Property Tax	47.6	(13.6)	386.5	10.3	2,071.2	(0.5)
Real Estate Transfer Tax	17.4	(3.9)	36.5	(3.4)	211.0	(11.2)
Casino Wagering Tax ⁴⁾	11.9	(15.0)	37.4	(5.6)	135.3	(15.1)
Oil & Gas Severance Tax	6.3	65.8	14.0	59.1	72.0	0.0
Other Taxes ⁵⁾	23.2	31.1	87.2	9.9	378.5	(19.5)
Total	\$1,737.1	13.4%	\$3,625.3	10.0%	\$21,738.0	5.7%
Addendum:						
Gross Lottery Sales ⁴⁾	\$188.7	(14.9)%	\$582.1	2.5%	\$2,225.0	0.1%
Net to School Aid Fund ⁴⁾	\$ 63.9	(8.8)%	\$191.0	3.6%	\$ 743.0	(0.8)%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
- 2) FY 2007-08 year-to-date collections begin with November 2007 collections to reflect accrual accounting.
- 3) Consensus revenue estimates adopted at the January 11, 2008, Consensus Revenue Estimating Conference.
- 4) Lottery and casino revenue is not accrued, so FY 2007-08 collections will include October 2007 to September 2008.
- 5) Other Taxes include beer, wine, liquor, industrial facilities, utility property, and estate taxes, and penalties and interest.

Actual Revenue Collections for Major State Taxes*
January 2006 to December 2007



*Comparison of actual collections. Major taxes include the beer, casino, estate, income, industrial facilities, insurance, liquor, oil & gas severance, real estate transfer, sales, SBT, State education, tobacco (cigarette & other tobacco products), use, utility property, and wine taxes, and penalties and interest revenue.